

# Introduction

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# Introduction

Income distribution has been one of the most important issues in Thailand since the latter half of the 1960s. As in other developing countries, an import-substitution industrialization policy was adopted in Thailand at the beginning of the 1960s. This policy was successful in a limited sense, in that it raised the growth rate of the industrial sector. But the spill-over effect did not work well enough to raise the income level of the non-industrial sector, which worsened the income distribution and therefore turned it into an important issue.

Several scholars have conducted research on income distribution since the early 1970s. Unfortunately, these studies covered different periods. Some covered only the 1960s and some covered only the period between 1975 and 1986. And, what is worse, these studies employed different methodologies; therefore, their results can not be compared in order to make clear the changes in income distribution from 1962 to 1986, the longest period for which income distribution data is available at present. This shortcoming often led to confusions regarding the trend of income inequality. The aim of this study is to make clear the changes in income distribution between 1962 and 1986 and investigate the causes of this change.

In Thailand it is generally believed that income inequality has been increasing since the 1960s. But one result of this study is to indicate that this is not necessarily true. In 1975 not only did income inequality in the whole kingdom improve but the rural-urban gap also decreased. This rural-urban gap remained stable until 1981. This point concerning the rural-urban gap has already been made by Meesook [37], but she did not present an inequality index such as the Gini coefficient, which may be the reason this equalization of income distribution in 1975 has been disregarded in Thailand.

The equalization in 1975 seems to have two important meanings. One is applicable to other developing countries, as regards the causes of this equalization. Income distribution consists of many factors which are interrelated, and therefore it is not easy to point out the exact causes of any equalization that may occur. We, however, tried to show some causes

of equalization in this study. Another important meaning of equalization is related to the evaluation of the democratic period from 1973 to 1976, which is a very special period in Thai history. After the October revolution in 1973 democratic and welfare-oriented governments were formed and welfare-oriented policies, such as the rural-development policy and minimum-wage rate policy, were adopted. These policies would have had some impact in the reduction of income inequality.

In the first half of the 1980s, however, income distribution worsened very rapidly. This was caused not only by the economic environment but also by a conservative government policy which was adopted to remedy the imbalances brought about by the expanding government expenditure policies of the 1970s. However, when we interpret the high income inequality in 1986, we have to take the business cycle into consideration. In 1985 the Thai economy reached the bottom of the business cycle and the share of agriculture in GDP decreased to 16.7 per cent at current prices because of stagnant agricultural prices. These factors worsened income distribution further. Therefore, we must be careful in interpreting the high income inequality in 1986 because it may be a passing phenomenon reflecting the trade cycle.

Study of income distribution tends to rely too much on such summary indexes as the Gini coefficient, the Theil index, etc. Though such summary indexes do tell us how high income inequality is, they do not tell us how income distribution changed (for example, whether the income share of the rich increased or not). Another often employed methodology in the study of income distribution is the decomposition of inequality index. But the decomposition analysis itself is not directly related to policy implications. For example, it can be shown on very simple assumptions that in the process of urbanization, income inequality first increases and then decreases.<sup>1</sup> In this process the contribution of the rural-urban gap to income inequality also first increases and then decreases. What policy implications can we derive from this result? Does this mean that at the beginning of urbanization, the contribution of the rural-urban gap is so small that the situation must be unchanged? In the study of income distribution, the difficulty of the decomposition analysis lies in how to interpret the results. In order to avoid this problem we need to understand more the nature of these inequality indices and to increase our understanding of the economy and society. In this study efforts were made to avoid such defects as much as possible.

In chapter 1, an overview of as well as an account of the past development of the Thai economy is briefly given as a background of this study.

Chapter 2 examines the past changes of income distribution in Thailand

as a whole. Our conclusions show that income inequality has been increasing except for the period from 1969 to 1975, and the increase in the 1980s is especially high. This result is compared with other Asian countries in order to examine the Kuznets inverted U-shaped curve, which states that income inequality increases first and then decreases as the economy develops. This comparison shows that the level of income inequality in Thailand is higher than that of East Asian countries but lower than that of other Southeast Asian countries such as the Philippines and Malaysia. The inverted U-shaped curve is supported only in a limited sense, that is, if the effect of the decreasing agricultural share is eliminated.

In chapter 3 income distribution is analyzed by dividing the whole kingdom into rural and urban areas. Contrary to the case of the whole kingdom, income inequality in the rural areas has constantly been increasing from 1962 to 1986. But in the urban areas, income inequality changes in the same manner as for the whole kingdom. Since the income share of the top decile group decreased in 1975, income inequality in the urban areas as well as in the whole kingdom also decreased. There is still another factor which reduced income inequality in the whole kingdom, that is, the decreasing rural-urban gap.

In the latter part of chapter 3 we examine the Kuznets hypothesis theoretically in terms of the expanding urban sector.

Chapter 4 analyzes income distribution at the regional level. Some results from the analysis of the rural and urban areas can be applied to the analysis at the regional level because there is a correspondence (though not a rigid one) between the urban areas and Bangkok on the one hand and between the rural areas and other regions on the other.

In the latter part of chapter 4 the disparity between regions is analyzed by making use of the gross regional product (GRP). The difference between household income and per capita GRP must be kept in mind. The latter measures productivity and accordingly does not necessarily reflect the income level of individuals accurately because a part of GRP is not distributed to the household sector and a part of GRP is distributed to other regions at the household level. The income disparity between Bangkok and the Northeast, or between the richest and the poorest regions, is 7:1 in terms of per capita GRP while it is 1:3 in terms of household income. Thus the per capita GRP exaggerates the disparity between regions.

In the 1980s what made the regional disparity larger was the decreasing agricultural share in regions other than Bangkok. This affected these regions unfavorably and increased the regional disparity between these regions and Bangkok. The falling price of agricultural goods is an important factor of this increasing regional disparity.

In the latter part of chapter 4 the skewness of the Lorenz curve is discussed. The skewness of the Lorenz curve reflects the level of development. In a less developed country people are divided roughly into two income groups: the high- or low-income class. But in a developed country the share of middle-income group increases. These changes can be measured by the skewness of the Lorenz curve, and we applied this methodology to Thailand.

Chapter 5 deals with the source of household income. The composition of household income is examined by source of income for the whole kingdom, by community type, and by region. It is shown that in the more urbanized areas or regions, the share of money income is larger but the inequality of money income is smaller. As a result, Rao's decomposition of the Gini coefficient by source of income shows that about 80 per cent of income inequality is accounted for by money income in the whole kingdom, in each community type, and in each region.

Chapter 6 deals with such socio-economic characteristics of the household as household size, the number of children, the number of income earners, the number of income receivers, the age of the household head, the level of education of the household head, and socio-economic class.

The average household income increases rapidly as the household size becomes larger in the urban areas, but it does so slowly in the rural areas. Accordingly, household size is a more important factor of income inequality in the urban areas than in rural areas, as it accounts for nearly one-fifth of income inequality in the urban areas while only accounting for 6 per cent in the rural areas.

A comparison between three income concepts, that is, household income, per capita household income, and adult equivalent income, was conducted. One of our impressive results is that even though the income concept is changed, a large proportion of rich households remain rich and a large proportion of poor households remain poor. The Gini coefficient is also compared between these income concepts.

As with the household size, as the number of earners becomes larger, the average household income increases rapidly in the urban areas and slowly in rural ones. Therefore, the number of earners is also an important factor of income inequality in the urban areas but not so in rural areas.

However, the number of income receivers is perhaps not very suitable as a factor of income inequality because unpaid family workers are not counted as income receivers. If the number of unpaid family workers is defined as the number of earners minus the number of income receivers, the marginal income of the unpaid family worker is much lower than that of the income receiver.

Average household income increases for the household head up to fifty to fifty-nine years of age but decreases thereafter. The result that the average household income decreases after the household head becomes sixty years old corresponds to the fact that some of them become extremely poor while some remain rich. But in terms of the per capita household income there seems to be much less changes even as the age of the household head increases.

As a factor of income inequality, the level of education of the household head is not important. But this does not mean that the current situation of education is desirable because the low contribution of education to income inequality is brought about by the dominance of the lower level of education. The effect of any education higher than elementary school in raising the income level seems to be significant. Thus education is an important aspect for income distribution.

Lastly the socio-economic class is taken up. In the rural areas the farm operator, who mainly owns land of nine *rai*<sup>2</sup> or less, or mainly rents land of nineteen *rai* or less, the farm laborer, and the general worker constitute the rural poor. On the other hand, the average income of production and construction workers is the lowest in the urban areas. As for the non-agricultural sector, the income structure by socio-economic class in the urban areas resembles that of the rural ones.

The methodology and data used in this study are explained in Appendices A and B.